

AR08

[Handwritten signature]

CanCorp

COCHRANE-DUNLOP HARDWARE LIMITED / ANNUAL REPORT 1972

COCHRANE-DUNLOP HARDWARE LIMITED

Directors

A. E. Barron, Toronto, Ontario
E. A. Bird, Toronto, Ontario
A. Gordon Cardy, Toronto, Ontario
F. Cochrane, Toronto, Ontario
D. Higgins, Toronto, Ontario
F. S. Martin, Ottawa, Ontario
F. F. Todd, Oakville, Ontario

Officers

F. Cochrane, *President*
D. Higgins, *Vice-President and General Manager*
R. L. T. Baillie, *Secretary-Treasurer*

Executive Offices

160 Bloor Street East, Toronto, Ontario

Transfer Agent and Registrar

The Canada Trust Company—Toronto

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

On behalf of the Directors of your company, I am pleased to report on the company's results for 1972. Included in this report are the financial statements of Cochrane-Dunlop Hardware Limited and its subsidiaries for the year ended December 31st, 1972, together with the report of the Auditors on these statements.

Consolidated net income of your company for 1972 amounted to \$674,543 or \$4.62 per share, a gain of 10% over 1971 earnings of \$613,448 or \$4.19 per share. Earnings in 1971 are stated before inclusion of an extraordinary gain of \$25,000 on disposal of an unused branch building.

SALES

Sales for 1972 were down \$2,521,282 or approximately 6% from the level for 1971. Significant changes in the composition of sales are reflected in the years results.

Total dealer division volume advanced significantly in 1972 while mining sales decreased. A major portion of the mining sale decrease was in the "direct shipment" category and is attributable mainly to the nickel industry in Canada which was undergoing a cost control phase during the year.

Total sales of the retail division, (company-owned retail stores) increased, although the Peterborough Ontario store was closed during the year. Through

aggressive control of cost, the profit contribution of this division increased over the previous year.

While sales overall decreased as a result of these general trends, an important factor in our operation for the year is that sales of materials handled by our warehouses increased by approximately 5%.

OPERATIONS

The year 1972 saw a continuation of your company's program of service and efficiency upgrading.

Electronic data processing equipment has been in use in the Toronto branch for a number of years and an extensive program to improve the effectiveness of this service was completed in 1972. Studies are now in process to extend these techniques to our Sudbury branch. Improvements in merchandise handling procedures involving warehouse layout, shipping and delivery techniques and support systems were introduced and further efficiencies are being studied.

Several changes in marketing approach have been introduced. A reorganization and expansion of the Industrial Division in the Toronto area was effected during 1972 and a new emphasis on dealer sales was initiated in our Western branches which is expected to produce opportunities for growth in the future.

DIVIDENDS

In December, 1972, as a result of elections by the company under the Income Tax Act, the regular annual dividend of 80¢ per common share was declared, payable in February, 1973, out of the company's tax-paid undistributed surplus on hand. Accordingly, this dividend is free of Canadian Income Tax in the hands of shareholders. This continues a policy which has been in effect for a number of years. It should be noted, however, that under the provisions of the Income Tax Act, the receipt of the dividend will reduce the adjusted cost base of common shares for the purpose of calculating gain or loss on any future sale of the shares. Regular taxable dividends of 80¢ per share were paid to holders of Class "A" shares.

FIXED ASSETS

Expenditures in the year included the cost of a parcel of land in the Sudbury area previously leased by the company, improved handling equipment and regular equipment replacement.

In January, 1973, purchase of a site for a major Toronto warehouse was completed at a cost of

approximately \$500,000. This property, located in a prime commercial area to the West of the city, provides an opportunity for planned growth and expansion of the present Toronto facility not possible at the present central site. This move is in accordance with the long term objectives for industrial division expansion in this major market area.

LABOUR CONDITIONS

All of our labour contract negotiations have been finalized satisfactorily and labour negotiations on the part of both suppliers and customers do not indicate that labour relations will have a major impact on the company's progress in 1973.

During 1973, the operating improvements and efficiencies introduced in 1972 will be continued and expanded and we expect to see a continuation of the growth pattern which has been established in recent years.

Toronto, Ontario
April 2, 1973

F. COCHRANE
President

STATISTICAL SUMMARY

FOR THE YEAR	1972	1971	1970	1969	1968	1967	1966
Sales - - - - -	\$39,294,074	\$41,815,356	\$41,516,281	\$35,750,970	\$35,661,895	\$33,112,129	\$29,378,641
Depreciation - - - - -	188,022	202,024	201,782	214,641	218,415	182,268	175,231
Income taxes - - - - -	640,000	630,000	550,000	385,000	570,000	487,000	336,000
Net income - - - - -	674,543	613,448*	488,754	360,188*	518,531	456,543	333,462
% to sales - - - - -	1.7%	1.5%*	1.2%	1.0%*	1.4%	1.4%	1.1%
per common share - - -	4.62	4.19*	3.32	2.42*	3.53	3.10	2.24
Dividends—total - - -	128,088	128,089	128,088	128,088	128,088	128,088	128,088
per share—Class A - -	.80	.80	.80	.80	.80	.80	.80
—Common - - - - -	.80	.80	.80	.80	.80	.80	.80
Increase in working capital - - - - -	626,055	502,934	472,971	364,504	116,603	153,919	257,902
AT YEAR END							
Working capital - - -	8,113,602	7,487,547	6,984,613	6,511,642	6,147,138	6,030,535	5,876,616
Shareholders' equity - -	10,348,114	9,821,909	9,318,750	8,958,084	8,657,080	8,266,637	7,404,482
Shares outstanding							
—Class A - - - - -	17,092	17,092	17,092	17,092	17,092	17,092	17,092
—Common - - - - -	143,018	143,018	143,018	143,018	143,018	143,018	143,018

*Before adding Extraordinary Items of: 1971—\$25,000 or \$0.18 per common share
1969—\$68,904 or \$0.48 per common share

CONSOLIDATED

DECEMBER 31, 1972

ASSETS

	1972	1971
Current assets:		
Cash - - - - -	\$ 9,135	\$ 3,415
Accounts receivable - - - - -	4,883,784	5,135,977
Merchandise inventory at lower of cost and net realizable value - - - - -	6,733,848	6,570,514
Prepaid expenses and other assets - - - - -	225,383	160,851
	<u>11,852,150</u>	<u>11,870,757</u>
Fixed assets, at cost (note 1):		
Buildings and equipment - - - - -	3,987,679	3,960,170
Furniture and fixtures - - - - -	1,179,500	1,205,115
Automotive equipment - - - - -	127,338	128,562
	<u>5,294,517</u>	<u>5,293,847</u>
Less accumulated depreciation - - - - -	3,440,680	3,309,202
	<u>1,853,837</u>	<u>1,984,645</u>
Land - - - - -	380,675	349,717
	<u>2,234,512</u>	<u>2,334,362</u>
	<u>\$14,086,662</u>	<u>\$14,205,119</u>

NOTES:

1. In January 1973, the Company acquired a parcel of land near Toronto at a cost of approximately \$500,000.
2. The non-voting class "A" shares are entitled to a fixed cumulative dividend of 80¢ per share in priority to the common shares but to no further participation in annual dividends.

AUDITOR'S

To the Shareholders of
Cochrane-Dunlop Hardware Limited:

We have examined the consolidated balance sheet of Cochrane-Dunlop Hardware Limited and subsidiary companies and consolidated source and application of funds for the year then ended. Our examination included a general review of the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1972, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding years.

Toronto, Canada,
March 30, 1973.

companies

31, 1972

	1972	1971
Current liabilities:		
Bank indebtedness - - - - -	\$ 225,408	\$ 1,020,385
Accounts payable and accrued charges - - - - -	2,973,111	2,863,293
Income and other taxes payable - - - - -	422,196	496,114
Dividends payable - - - - -	117,833	3,418
	<u>3,738,548</u>	<u>4,383,210</u>
Shareholders' equity:		
Share capital—		
Authorized:		
565,420 non-cumulative preference shares of		
par value 20¢ each redeemable at par		
17,092 class "A" shares of no par value (note 2)		
143,018 common shares of no par value		
Issued and fully paid:		
17,092 class "A" shares } - - - - -	533,700	533,700
143,018 common shares } - - - - -		
Retained earnings - - - - -	9,814,414	9,288,209
	<u>10,348,114</u>	<u>9,821,909</u>
	<u>\$14,086,662</u>	<u>\$14,205,119</u>
On behalf of the Board:		
F. COCHRANE, Director		
A. E. BARRON, Director		

REPORT

... as at December 31, 1972 and the statements of consolidated income, consolidated retained earnings and consolidated balance sheets, and the accounting procedures and such tests of accounting records and other supporting evidence as we considered neces-

1971, 1972 and the results of their operations and the source and application of their funds for the year then ended, and for the year.

CLARKSON, GORDON & CO.
Chartered Accountants

COCHRANE-DUNLOP HARDWARE LIMITED
and subsidiary companies

STATEMENT OF CONSOLIDATED INCOME

FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
Sales - - - - -	\$39,294,074	\$41,815,356
Costs and expenses, exclusive of the following items - - - - -	37,542,618	40,101,804
Depreciation - - - - -	188,022	202,024
Remuneration of directors and senior officers - - - - -	183,899	179,998
Interest on bank indebtedness - - - - -	64,992	88,082
	<u>37,979,531</u>	<u>40,571,908</u>
Net income before income taxes and extraordinary item - - - - -	1,314,543	1,243,448
Income taxes - - - - -	640,000	630,000
Net income before extraordinary item - - - - -	<u>674,543</u>	<u>613,448</u>
Extraordinary item, gain on disposal of branch premises - - - - -		25,000
Net income for the year - - - - -	<u>\$ 674,543</u>	<u>\$ 638,448</u>
Net income per common share:		
—before extraordinary item - - - - -	<u>\$4.62</u>	<u>\$4.19</u>
—for the year - - - - -	<u>\$4.62</u>	<u>\$4.37</u>

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
Balance, beginning of year - - - - -	\$9,288,209	\$8,785,050
Net income for the year - - - - -	<u>674,543</u>	<u>638,448</u>
	<u>9,962,752</u>	<u>9,423,498</u>
Deduct:		
Dividends—common shares - - - - -	114,414	114,415
—class "A" shares - - - - -	13,674	13,674
	<u>128,088</u>	<u>128,089</u>
Tax paid on undistributed income - - - - -	20,250	7,200
	<u>148,338</u>	<u>135,289</u>
Balance, end of year - - - - -	<u>\$9,814,414</u>	<u>\$9,288,209</u>

COCHRANE-DUNLOP HARDWARE LIMITED

and subsidiary companies

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	1971
Source of funds:		
Net income for the year before extraordinary item - - - - -	\$ 674,543	\$ 613,448
Depreciation, not requiring a current outlay of funds - - - - -	188,022	202,024
	<u>862,565</u>	<u>815,472</u>
Proceeds from disposal of branch premises - - - - -		25,000
	<u>862,565</u>	<u>840,472</u>
Application of funds:		
Expenditures on fixed assets - - - - -	88,172	202,249
Dividends - - - - -	128,088	128,089
Tax paid on undistributed income - - - - -	20,250	7,200
	<u>236,510</u>	<u>337,538</u>
Increase in working capital - - - - -	626,055	502,934
Working capital at beginning of year - - - - -	7,487,547	6,984,613
Working capital at end of year - - - - -	<u>\$8,113,602</u>	<u>\$7,487,547</u>

Wholly-Owned Subsidiary Companies

C-D Hardware Sales Limited

Cochrane-Dunlop Hardware—Quebec, Inc.

Cochrane-Dunlop Hardware—Manitoba Limited

Cochrane-Dunlop Hardware—Saskatchewan Limited

Dominion Hardware Stores Limited

Wholesale Branches

ONTARIO

Dryden	Sudbury
Elliot Lake	Thunder Bay
Little Current	Toronto
North Bay	Wawa
Sault Ste. Marie	

QUEBEC

Val d'Or

MANITOBA

Thompson

SASKATCHEWAN

Esterhazy	Saskatoon
-----------	-----------

Retail Branches

ONTARIO

Copper Cliff	North Bay
Guelph	Oakville
Hamilton	Sault Ste. Marie
Lively	Sudbury (2)

MANITOBA

Thompson

COCHRANE-DUNLOP HARDWARE LIMITED

AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED SOURCE
AND APPLICATION OF FUNDS

	six months ended June 30	
	1972	1971
Source of funds:		
Net income for the period	\$ 326,788	\$ 239,032
Add depreciation, not requiring a current outlay of funds	101,012	100,891
	<u>427,800</u>	<u>339,923</u>
Application of funds:		
Expenditures on fixed assets	72,437	147,654
Dividends	6,836	6,836
	<u>79,273</u>	<u>154,490</u>
Increase in working capital	\$ 348,527	\$ 185,433
Working capital at June 30th	<u>\$7,836,074</u>	<u>\$7,170,046</u>

Note: Subject to audit and year-end adjustments.

**COCHRANE-DUNLOP**HARDWARE LIMITED
AND SUBSIDIARY COMPANIESInterim Report for the six months
ended June 30, 1972EXECUTIVE OFFICES
160 BLOOR STREET EAST
TORONTO, ONTARIO
PHONE 416/921-3103

COCHRANE-DUNLOP HARDWARE LIMITED

AND SUBSIDIARY COMPANIES

REPORT FOR THE SIX MONTHS ENDED JUNE 30, 1972

TO THE SHAREHOLDERS:

Net income of your company for the first six months of 1972 was \$326,788 or \$2.24 per common share compared with \$239,032 or \$1.62 per common share for the corresponding period in 1971.

Sales for the six month period of 1972 were \$19,529,917, a decrease of 5.5% from the volume achieved in the first six months of 1971. The "mix" of sales in this total, however, was beneficial to your company. Merchandise processed through our warehouses and, therefore, reflecting "full" distribution services, increased by approximately 7%, while volume of "direct shipment" transactions decreased significantly. Sales of our retail division showed an increase. This change in "mix", continuation of a trend which has existed for several months, more than offsets the effect of the overall sales reduction with the result that a satisfactory increase has been achieved in gross profit margins. The increase in volume of merchandise processed through our warehouses has as a result of effective expense control been achieved with minor increase in operating expense, with the result that the improvement in gross profit is also reflected in net income.

The experience of the second quarter of 1972 has been most satisfactory, particularly in our retail dealer supply business and the factors referred to above were accelerated in this period, producing the favourable results of the second quarter.

Expenditures on fixed assets represent regular equipment replacements and acquisition of a parcel of land in the Sudbury area previously leased by your company.

Results at this time in 1972 indicate that your company should show satisfactory results for the balance of the year.

Toronto, Canada
August 15, 1972

F. COCHRANE
President

COCHRANE-DUNLOP HARDWARE LIMITED

AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME

	six months ended June 30	
	1972	1971
Sales.....	\$19,529,917	\$20,543,149
Cost and expenses, exclusive of the following items.....	18,750,988	19,899,254
Depreciation.....	101,012	100,891
Interest on bank indebtedness...	37,129	45,072
	<u>18,889,129</u>	<u>20,045,217</u>
Net income before income taxes...	640,788	497,932
Income taxes.....	314,000	258,900
Net income for the period.....	<u>\$ 326,788</u>	<u>\$ 239,032</u>
Net income per common share...	<u>\$ 2.24</u>	<u>\$ 1.62</u>

Note: Subject to audit and year-end adjustments.